1Q 2021 Commentary

The financial markets performed well during the first quarter of 2021, although we saw some volatility during February in the more highly rated sectors such as technology. The pandemic is not over, but encouragingly economic data has continued to improve and investors are clearly choosing to look forward and through the current economic situation towards recovery. Although the vaccine rollouts are proceeding at different speeds in major countries, both the UK and US programmes are going well, and that, coupled with some decisive stimulus programmes from the US Biden-led government, has helped to drive markets higher due to growing investor confidence. Equally, the improvement and recovery in asset values continues to be supported by huge liquidity injections from global central banks.

There has certainly been some continued rotational-type activity during the first quarter, as investors switched into more 'value' type equities following the very strong returns of 2020 in the 'growth' sectors.

The major development in the first quarter of the year was the increase in the yield of the US 10 Year Treasury Bond (from 0.9% to 1.7%). The last time we saw a comparable move in yields, it happened over a couple of years; so, when this more recent move in yields occurred over a few weeks, it clearly caused some concern to investors and hence the mid-quarter volatility in equities. Investors were concerned that the increase in yields was caused by rising inflation and the likelihood that the Federal Reserve would be putting the brakes on the economy by having to raise interest rates in order to control inflation. The 10% correction in the technology-heavy Nasdaq has now mostly been recovered. Usually such corrections are healthy and can lead to even higher levels being seen in due course. The unusual and severe winter storm that hit the US in mid-February affected many manufacturing hubs, especially those involved in producing components for technology goods. As a result there was some immediate concern over shortages, leading to higher component costs and reduced production of end-goods. These short-term anomalies in production are now resolved.

The Federal Reserve is clearly quite relaxed about the recent sharp increase in Treasury Bond yields, and has not changed its stance on future interest rate increases. The latest forecast from the IMF (International Monetary Fund) is for the global economy to grow by 6% in 2021. Strong economic growth usually leads to good earnings growth for companies, and thus should support equity prices.

As the northern hemisphere comes out of the cold winter months, economic activity will benefit from the summer season ahead. The fourth quarter earnings reports from companies were mostly encouraging, and analysts are expecting the imminent first quarter results to also be supportive to stock prices. Oil prices have been steady, which is helpful for the global economy, and OPEC recently announced its intention to maintain production levels for the time being.
Over the quarter under review, the US market has led in terms of performance versus other developed equity markets. We do, however, expect to see good returns from emerging markets as those regions have historically benefited from a weaker dollar – which we are currently seeing – as well as the early stages of a new economic growth cycle. Economic activity within

China continues to recover well, and the country was one of the very few to post positive economic growth for the full year of 2020.

There continues to be good news on both therapies and vaccines, with several approved by various global health authorities. With new strains of the virus, however, it may be hard to measure the true efficacy of the vaccines. There is a wide divergence among countries concerning the speed of their inoculation programmes, and so there remains a risk of potential bouts of volatility. Better testing and tracing will hopefully also assist with a return to more normal economic conditions.

In certain areas, some equity valuations are looking somewhat extended – though there is good value in other areas such as the UK equity market – so it will be important for earnings to live up to expectations. Stock market multiples will, however, continue to receive implicit support from extremely low interest rates. We will continue to remain vigilant to news-flow and continue to take appropriate action as required in client portfolios.

Opinions constitute our judgement as at the date of publication and are subject to change without warning. The value of investments and the income from them can go down as well as up and you may not recover the amount of your original investment. Past performance is not a reliable indicator of future results and forecasts are not a reliable indicator of future performance. Where an investment involves exposure to foreign currency, changes in the rates of exchange may cause the value of the investment and the income from it to go up or down. In the case of some investments, you should be aware that there is no recognised market for them, and that it may, therefore, be difficult for you to deal in them or for you to obtain reliable information about the value or the extent of the risks to which they are exposed. Certain investments carry a higher degree of risk than others and are, therefore, unsuitable for some investors. It may be possible to lose all of your initial capital in certain types of investments. Before contemplating any transaction you should consider whether you require financial advice. Nothing in this document should be construed a solicitation, offer or recommendation to buy or sell securities or any other investment or banking product, nor to provide any investment advice or service. Nothing contained in this document constitutes investment, legal, tax or other advice, nor should it be relied upon when making an investment or other decision. The information in this document is believed to be correct but LAM cannot guarantee its accuracy, timeliness or completeness of any such information.